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# SOLDIERS' ADJUSTED COMPENSATION

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## HEARINGS

BEFORE THE

COMMITTEE ON FINANCE  
UNITED STATES SENATE

SIXTY-SIXTH CONGRESS  
THIRD SESSION

ON

**H. R. 14157**

A BILL TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES

THURSDAY, DECEMBER 23, 1920

## PART 4



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# SOLDIERS' ADJUSTED COMPENSATION.

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THURSDAY, DECEMBER 23, 1920.

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met pursuant to call, in committee room, Capitol, at 10.30 o'clock a. m., Senator Porter J. McCumber presiding.

Present: Senators McCumber (acting chairman), Smoot, La Follette, Dillingham, McLean, Watson, Sutherland, Gore, Gerry, and Nugent.

Present also: Hon. David F. Houston, Secretary of the Treasury.

Senator McCUMBER. The committee will please come to order. We have a quorum, and we will call upon the Secretary of the Treasury, if he is ready, to give his testimony now.

## STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF THE TREASURY.

Senator McCUMBER. Mr. Secretary, we have under consideration the bill generally known as the soldiers' bonus bill. The question turns more upon the state of the Treasury at the present and in the future than possibly upon any other question, and that undoubtedly opens up the whole question of finances. We would like to have you give us your views concerning not only this particular subject but the general subject of the financial situation and how you propose to handle it.

Secretary HOUSTON. Mr. Chairman, I regret that I have not been able to give this matter very much consideration since you telephoned me. I have been confined to the house with influenza or something of that sort. But, of course, I have had the general subject in my thoughts very intimately for a long time and have touched upon the situation, both in general and in detail, in my annual report. The problems confronting the Government in the field of finance are not insuperable but they are difficult. They are not by any means, of course, as difficult as those that we confronted during the war. Our expenditures are running much lower than they did during the war, and the tax receipts have for the most part held up, and the country has, therefore, tended to return toward a more stable financial condition. The following, in brief, seems to be the situation confronting us and the desirable way of meeting it: We have at present a floating debt, in the form of certificates, of approximately \$2,300,000,000. We shall have maturing on the 1st of January, 1923, \$800,000,000 of war-savings securities; and, in May, 1923, the Victory loan of approximately \$4,250,000,000. In round numbers, the obligations we must meet within a little more than two years, total approximately \$7,500,000,000. In addition we must

carry on the Government. The estimated expenditures for the ensuing fiscal year are in the neighborhood of \$4,800,000,000—

Senator Smoot. \$4,600,000,000?

Secretary Houston. I have the figures here. As I have it, the total estimated ordinary expenditures for 1920-21 are about \$4,800,000,000, and for 1921-22 about \$3,900,000,000.

Senator Smoot. That is without the deficiency?

Secretary Houston. Yes.

Senator Smoot. The deficiency bill would make it \$4,700,000,000?

Secretary Houston. The estimated excess receipts over expenditures, exclusive of the public debt, for 1920-21 are about \$888,000,000, and the excess receipts over expenditures, exclusive of the public debt, for 1921-22 are about \$962,000,000. For 1920-21, including the public debt, there will be an estimated gross deficiency of slightly over \$2,000,000,000, and for 1921-22, including the public debt, of slightly over \$1,448,000,000.

It is obvious, Mr. Chairman, that if no changes are made and the estimates are approximately correct, we shall go forward into the fiscal year 1922-23 with a gross deficit of \$1,500,000,000, including public debt expenditures and that we shall then face the problem of continuing to carry on the Government of meeting this deficit, and of handling the war-savings securities of \$800,000,000 and the Victory loan of about \$4,250,000,000.

At the same time we are confronted with the fact that some of the sources of revenue are tending to dry up, that the receipts from some taxes are, therefore, tending to fall. Unless something can be done to reduce expenditures, we shall have to look about for additional revenues to carry on the Government and to execute a sound financial program, even if no unusual or additional burdens are imposed. That will be no easy undertaking, because, while the country, even with the recent business changes, the decline of prices and other disturbances, is still strong, there is a growing reluctance to continue to pay high taxes.

Senator Watson. Would it disturb the continuity of your statement to ask you what sources of revenue are drying up?

Secretary Houston. Principally the income and profits sources. For instance, as I stated in my annual report, net income of taxpayers with net incomes of over \$300,000 for 1916 was returned at \$993,000,000; for 1917, at \$731,000,000; and for 1918, at \$392,000,000. Also, the estimated excess-profits tax yield, with collections of back taxes, which for 1919-20 was estimated at approximately \$2,000,000,000; for 1920-21 estimated at \$1,250,000,000; and for 1921-22 at \$800,000,000.

So that even if you retain the present scheme of taxation, if the estimates are reliable—and I think they are reasonably so—you will witness a falling off of the revenue.

Senator Smoot. Your estimate shows it much less for 1921-22?

Secretary Houston. Yes, sir. I have here the estimated income and excess-profits tax receipts for four years: 1918-19, \$2,600,000,000; 1919-20, \$3,956,000,000; 1920-21, \$3,200,000,000; 1921-22, \$2,625,000,000.

The customs revenues, which in 1918-19 were \$183,000,000, were for 1919-20, \$323,000,000, and the estimate given me for 1920-21 is \$350,000,000, with a similar amount indicated for 1921-22.

Senator Smoot. It will probably be more than that for 1921-22, however?

Secretary Houston. That may be.

Senator McCumber. I notice that in your annual report you give the ordinary receipts in 1922 at \$4,859,530,000. Of course, that report was made on, I think, November 20. Now, with the developments and changed conditions since that time do you still think that statement of the receipts is approximately correct?

Secretary Houston. Of course, that was made on the basis of conditions existing at that time. I think the likelihood is that there may be a decline rather than an increase.

Senator McCumber. So that there will be less than that, creating a greater deficiency?

Secretary Houston. Possibly. Furthermore, I think it desirable, for administrative and other reasons, that some modification be made in existing tax arrangements. It has been our experience that the excess-profits tax—that method of approaching the profits of corporations—has not worked equitably as among the different corporations themselves or as between corporations and other businesses.

I am informed by the Treasury experts that the difficulties of administering the act, of auditing the returns on the basis fixed by the law, are exceedingly great, and that it is impossible to catch up in the work; and, as I said a moment ago, it is quite obvious that the receipts from the tax are falling and may fall materially lower.

Senator Smoot. It has also forced certain men in the United States to buy nontaxable securities, and that has caused the loss of a great deal of money from that source?

Secretary Houston. I think that is true, particularly of the supertaxes.

Senator Smoot. Yes; particularly of the supertax.

Secretary Houston. As to the feasibility of reducing the estimates, keeping the expenditures of the Government down, I have no definite way of determining the extent to which that is possible. Certain charges are fixed. The interest on the public debt runs in the neighborhood of a billion dollars. That must be met. The sinking-fund charge, which will be in the neighborhood of \$255,000,000 or more, in my judgment ought not to be tampered with. I think we ought to proceed with the sinking fund and the gradual extinguishing of our public debt. It has been the experience of all nations that when they once begin to tamper with the sinking fund they do not soon quit. I should dislike to see this Nation depart from what I consider a sound basis established in existing law.

Generally speaking, this Government during the war established and followed substantially sound fiscal policies. I am not speaking of each feature of the tax laws; but the general principle of paying a large percentage of the expenditures of the war through taxes—roughly speaking, something like a third—seemed to me at the time to be wise and still seems to me to have been wise. Furthermore, the provision in the law for the retirement of the debt was a wise provision. Also the general principle established in the tax legislation, of making the system on the whole a progressive tax system, basing it on the principle of the ability of the taxpayer to bear the

burden, which I believe is generally conceded to be sound—I think that principle established in the law was sound and wise.

Senator SMOOT. It will take us 33 years to pay our debt off under the existing law.

Secretary HOUSTON. There are certain estimates, relatively small, which, perhaps, can be reduced and doubtless should be reduced. The largest single items are those for the Army and the Navy, running, as I recall it, without any deficiencies, to approximately \$1,600,000,000.

Senator SMOOT. There is \$100,000,000 of deficiencies already asked for in the War Department.

Secretary HOUSTON. What course the Congress will deem it wise to take as to the future of the Army and the Navy I have no means of determining.

Senator MCLEAN. What effect will the revival of the operation of the War Finance Corporation have upon these estimates?

Secretary Houston. That has been very much in my mind, Senator, for some months, and I suppose my view is pretty well known on that subject.

I have been opposed to the resumption of the activities of the War Finance Corporation. My reasons, as briefly stated as I can give them, are these: I assume that that amendment, which is the only provision of the law in question, authorizing the corporation to lend money to exporters who could not otherwise get the money, was passed at a time following the armistice when apparently it was assumed that foreign trade might be very greatly interrupted, might get in a very chaotic state, and might largely cease; because for the previous year, the calendar year 1918, we had been exporting great quantities of military supplies, food supplies, and things of that sort to Europe, partly on credits established by this Government to European governments. That apprehension was, of course, not realized; export trade not only did not become chaotic, did not decline, but very greatly increased.

Senator McCUMBER. In volume or in value, or in both?

Secretary HOUSTON. In both. Speaking in terms of value, compared with a prewar export of \$2,300,000,000, we exported during the last calendar year of the war, 1918, \$6,000,000,000, which was the year in mind when this amendment was passed. The exports for the succeeding calendar year, 1919, were \$7,900,000,000, of which \$4,000,000,000, roughly speaking, were agricultural products. When we suspended operations, the exports were running at the rate of something over \$8,000,000,000, and have since been running at the rate of \$8,100,000,000. The exports up to the last report of the Department of Commerce, running through November, were over \$7,500,000,000.

Senator LA FOLLETTE. What proportion of agricultural products?

Secretary HOUSTON. May I come to that in just a moment—\$7,500,000,000, with the exports for November valued at \$675,000,000. Assuming they will run at a similar rate for December, for this calendar year, there would be something more than \$8,100,000,000.

The proportion of agricultural products has on the whole somewhat declined, while the total value of exports has increased. Bread-stuffs show an increase in value over the preceding year. They are

running this year at the rate of over \$1,000,000,000 as against something like \$920,000,000 for 1919, and, I think, \$165,000,000—I shall have to verify that figure—before the war. That is \$1,000,000,000 against about \$165,000,000.

Meat exports have fallen off, and cotton also, both in physical volume and in value, but the total value of exports and the total physical volume of exports have increased.

Recently I prepared and submitted to a Member of the Senate a statement showing, so far as I could get them, both the value and the physical volume of agricultural exports, and if the committee is interested I shall be glad to file that as a part of my statement.

Senator McCUMBER. We shall be very glad to have you do so, Mr. Secretary.

Secretary HOUSTON. Imports to this country have tended to increase since the armistice, but the deficit each year—that is, the balance each year against the rest of the world—is marked. Roughly stated, we have exported in the last three years—if I may speak of this year as being complete, on the basis I gave—we have exported during the last three calendar years approximately \$22,000,000,000 worth of commodities, and have imported, roughly speaking, \$12,000,000,000 worth, which would leave an apparent balance against the rest of the world, and particularly against Europe, of \$10,000,000,000.

Senator McCUMBER. That would include one year of the war?

Secretary HOUSTON. One year of the war. I say "apparent" for the reason that there are certain offsets that do not appear in the statistics of imports. There is a considerable offset in the form of services in the way of shipping and charges for shipping, in expenditures that our citizens make abroad, probably in the return of securities to this country, and in investments abroad. The best estimate I have been able to get from the Treasury experts as to the probable unfunded or floating indebtedness arising out of the balance of trade is between three and a half and four billions at present, and that is approximately also the estimate that I have seen from foreign sources.

The matter of stimulating exports raises many questions. We have to discover the communities that wish the increased exports, and they have to discover on their part the means of payment for the additional imports they seek. Europe, which is the country chiefly in question, imported prior to the war, as I recall it, 68 per cent of all our exports, and I am rather definitely of the opinion that recently her share of our exports has run from about 60 to 65 per cent. I can not give the exact figure.

The great difficulty in the countries of Europe that some people are thinking about—countries which are the worst hit as a result of the war—is that they have not returned, and will not for a considerable while return, to a state of large production, although their production has increased, as is indicated by their increased exports; also they have not the gold and can not discover the requisite securities on which business men would make loans. I base this statement not merely on my own investigation but also on the report of European experts who recently assembled at the Brussels conference.

Senator SMOOT. Very few American securities are held abroad. Have you any idea how many?

Secretary HOUSTON. I have not.

Senator SMOOT. But it is very small?

Secretary HOUSTON. Yes. The experts who met at Brussels to consider trade and finance reported that the prerequisites to a restoration of trade were peace in Europe, the cessation of fighting, the return to productive industry, the breaking down of the barriers which have been erected, especially among the new States, the location of securities which could be offered for credits abroad.

Senator WATSON. I notice it has been suggested by somebody that a definite fixing of the amount of the indemnity that Germany would have to pay would have a stabilizing effect. What is your opinion as to that?

Secretary HOUSTON. It seems to me obvious that the determination of the indemnity that Germany is to pay the Allies is a matter of first importance, and also the fixing of that indemnity at a reasonable figure. The hanging over a people of an indefinite mortgage or liability is always a depressing and disturbing element. If it is determined and it is put at an unreasonable figure, it will also be a depressing and disturbing element. Until the indemnity is determined I do not see how Germany or individuals in Germany can determine what can be done in the way of furnishing security.

Senator LA FOLLETTE. Do you happen to remember, Mr. Secretary, the recommendation which the Brussels conference made with respect to disarmament?

Secretary HOUSTON. In my annual report I gave the leading resolutions, Senator. Would you like for me to refer to them at this time?

Senator LA FOLLETTE. No. I just wondered whether in this connection you could recall their recommendation. I saw a copy of it, and, as I remember, they all agreed it would be quite impossible to have a revival unless they stopped all expenditure for armament.

Secretary HOUSTON. I will read, if I may, from page 88 of my Annual Report:

The first step is to bring public opinion in every country to realize the essential facts of the situation and particularly the need of reestablishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of Government expenditure over revenue represented by budget deficits is one of the most serious obstacles to such increase of production, as it must sooner or later involve the following consequences.

- (a) A further inflation of credit and currency.
- (b) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.
- (c) A further rise in prices and in the cost of living.

The country which accepts the policy of budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great.

It is, therefore, imperative that every Government should, as the first social and financial reform, on which all others depend:

- (a) Restrict its ordinary recurrent expenditure, including the service of the debt, to such an amount as can be covered by its ordinary revenue.
- (b) Rigidly reduce all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.
- (c) Abandon all unproductive extraordinary expenditure.
- (d) Restrict even productive extraordinary expenditure to the lowest possible amount.

That, I think, covers your question.

Senator LA FOLLETTE. I would like to read into the record a few sentences from page 89:

The statements presented to the conference show that, on an average, some 20 per cent of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war. The conference desires to affirm with the utmost emphasis that the world can not afford this expenditure. Only by a frank policy of mutual cooperation can the nations hope to regain their old prosperity; and in order to secure that result the whole resources of each country must be devoted to strictly productive purposes. The conference accordingly recommends most earnestly to the council of the League of Nations the desirability of conferring at once with the several Governments concerned, with a view to securing a general and agreed reduction of the crushing burden which, on their existing scale, armaments still impose on the impoverished peoples of the world, sapping their resources and imperiling their recovery from the ravages of war. The conference hopes that the assembly of the league which is about to meet will take energetic action to this end.

Secretary HOUSTON. On pages 90 and 91 are the resolutions proposed by the committee on currency and exchange. The general thought underlying them is to have those countries which have not heretofore pursued a sound fiscal policy take steps to embark on a sound fiscal and banking policy, and through this and other measures, not only to promote industry in every feasible way, through local or domestic efforts, but to establish a basis of credit. Most of the countries of continental Europe engaged in the war apparently did not succeed in establishing from the outset, or from pursuing during the war, such a fiscal system or banking system as this country and England measurably succeeded in pursuing.

I have gone pretty far afield. I was led to this discussion by a desire to point out that the reason why, in my judgment, Europe will not take much more of our products is that she has not the goods or the gold to pay for them and can not offer good securities in requisite quantity for additional credits. One way to enable any country in Europe to take more of our commodities would be to extend its government credit, just as we extended credit to governments during the war, but I have not assumed that this country would desire to resume the extension of Government credits to the governments of Europe. We now have large sums owing us by European governments; and there are people in this country who advocate extension of further credits to Europe who are on record as advocating the cancellation of what Europe now owes us. This does not seem to me to be highly logical.

If Europe can discover a basis for credit—and they are working hard on it—they can take more of our commodities, if they desire them and they can continue to get them financed through ordinary commercial channels. These private agencies are financing \$8,100,000,000, and they financed \$7,900,000,000 last year.

My own judgment is that the resumption of the War Finance Corporation would probably not materially increase the exports to Europe; because, as I say, the business foundation for such additional exports does not exist and nobody has suggested it to me as a desirable thing that the Treasury should lend on bad security or worse security than business men would lend on.

"But," they say, "you would lend to exporters." That is simply carrying the thing a step further. Exporters have to require good security or take bad debts. My own judgment is that it would result, mainly, in the shifting of the financing of these exporters from present financial channels to the Government of the United States. And I have not thought that now, when the war is over, it is desirable to keep alive this war agency and to keep the Government in the banking business.

Senator WATSON. Are we to understand then, Mr. Secretary, that you oppose this proposition to extend credit to Germany to the amount of a billion dollars?

Secretary HOUSTON. I do. I may not have seen the specific proposal.

Senator WATSON. But in general terms—

Secretary HOUSTON. In general terms, I see no justification for it.

Senator SMOOT. I received a copy of the program this morning; I have not had time to read it yet.

Senator McCUMBER. If we were to give here a credit of a billion dollars, where would we get the money?

Secretary HOUSTON. I was coming to that in connection with the operations of the War Finance Corporation. The War Finance Corporation has a book credit in the Treasury of \$365,000,000—something like that.

Senator SMOOT. Three hundred and seventy million dollars and something.

Secretary HOUSTON. Three hundred and sixty-five million dollars. Of course, we have no idle money in the Treasury. We are having to borrow money every little while to meet current bills. There seems to be a sort of impression somewhere that that \$365,000,000 and some other odd sums that people are locating are lying around loose.

Senator SMOOT. That you are keeping them in your pocket?

Secretary HOUSTON. Yes. Of course, that is not true. Only one of two things could happen; either the War Finance Corporation would call upon the Treasury for that book credit and we would have to go out and borrow it on certificates at current rates, or the War Finance Corporation would have to attempt to sell bonds at a rate which might attract the investors. In either case the issues would compete with the regular Treasury issues, because the Treasury is now drawing money from investors from whom the bonds of the War Finance Corporation would draw them. You can not use the same funds twice. Furthermore, I have a shrewd suspicion that those same funds would be used in private ways if the Government did not take them.

So you would not really get anywhere. You can not pyramid resources; and with all the problems confronting us, with the burdens resting upon the Treasury of meeting promptly current bills and of borrowing at times in every large sums, it does not seem to me that we ought to throw on the Government additional burdens, and especially when it is now being definitely planned further to unify the activities of private agencies in financing exports through the formation of export corporations under a law enacted by Congress. One has already been organized and another is in process of organi-

zation, the first with a capital already subscribed, I believe, of something over \$7,000,000 and the second in the process of formation with a capital of \$100,000,000.

These may do much good. They will not furnish a panacea. They will not result in the establishment of war prices for commodities, and I think anybody who would hold that hope out to the farmer would be his worst enemy. They should help to unify commercial activities. They may be able to discover and develop in more orderly fashion proper business bases for credit, and I very much hope they will proceed and will function soon in full and liberal measure.

Senator WATSON. Of what advantage is it for them to sell four or five millions of bushels of our wheat abroad, roughly speaking, if we bring in forty-five or fifty millions of bushels from Canada at the same time?

Secretary HOUSTON. Before I try to answer that let me not forget a thought which I meant to try to bring out in connection with what I have been saying. I think it is especially questionable whether, through these or any other efforts, the export, particularly of agricultural products to Europe, will be very greatly increased. Before the war the exports of our principal agricultural products were relatively small. Our five-year average export of wheat and wheat equivalent was 105,000,000 bushels. Giving my offhand recollection of the figures, the total export value of breadstuffs before the war was about \$165,000,000; meat products, \$146,227,000; and cotton, \$610,000,000. The first thing which the thirty millions or forty millions of men did when they quit fighting after the armistice was to think about something to eat, and they went to work to try to produce foodstuffs in Europe. They have succeeded in fair measure. France, I am told, will be very nearly self-sufficient in the matter of foodstuffs. Germany will not be anything like normal, but she has had a very large production of one of her staple commodities—potatoes. Other countries have increased their food supplies.

Furthermore, shipping has opened up throughout the world. Australia and South America, especially Argentina, which were practically shut out of the world's markets during the submarine activity, have begun to come back into the market and Europe is now seeking what she wishes and find means to pay for where she can get it the cheapest. It should be noted that while the total takings from this country have increased this year, agricultural exports have fallen off. Now, if Europe had wanted them she would have increased them at the expense of the things which were not necessary to her actual existence. She arranged to take more of our goods, but she exercised her option by taking fewer agricultural commodities.

As to the question you asked me a moment ago, Senator Watson, I do not want to enter upon a discussion of protection. I will simply say this: That while our total exports of agricultural products last year were approximately \$1,500,000,000, our total exports were \$4,000,000,000, and while there are larger imports of certain farm products, it would be a rather dangerous game to begin shutting off imports of agricultural products when our exports of the same commodities are about three times the imports.

Senator McCUMBER. How do our imports of wheat in 1919, for instance, compare with our imports in 1920, if you recall?

Secretary HOUSTON. I can not give you the figures, Senator.

Senator McCUMBER. It was reported the other day that in two months, I think, we imported from Canada twenty times as many bushels as we imported in the entire previous year.

Secretary HOUSTON. Well, not to get away from the main problem—

Senator McCUMBER. That is a little afield from your discussion, I admit, Mr. Secretary.

Secretary HOUSTON. I have attempted to give my objections to the revival of the War Finance Corporation. I believe that it will raise false hopes on the part of the very people who are expecting the most from it, it will have the unfortunate effect of keeping the Government in the banking business, and cause a shifting of the financing from ordinary channels to the Government.

Senator McLEAN. How much money would you have to raise immediately?

Secretary HOUSTON. I have no means of knowing. I can only say that the loans of the War Finance Corporation under the amendment up to the time we suspended operations were very small—slightly over \$46,000,000 as I recall it. And I have no doubt that if the corporation were to resume many of the same people would come back to get financed on the Government's credit rather than in the ordinary ways. What the demand would be I have no means of knowing. If it were relatively small it would not accomplish any particular purpose; if it were large it would involve the Government in further borrowing to that extent.

Senator Smoot. Was there not a board organized during the war that loaned five times as much as the War Finance Corporation?

Secretary HOUSTON. I am speaking now of the amendment, giving power to finance exports.

Senator McLEAN. Do you know what the total of our private commitments abroad now is? We have loaned something like ten billions to the governments. Do you know what the total of the private commitments is?

Secretary Houston. My statement a short time ago was that the unfunded commercial balance is between three and a half and four billions.

Senator Smoot. What I was speaking of was the fact that the Government had a board, and I think it was in the Treasury Department, for the purpose of making loans to assist concerns in this country.

Secretary HOUSTON. The War Finance Corporation had that power. Nearly every power of the War Finance Corporation was conferred to permit aid to businesses of certain sorts that were essential to the successful prosecution of the war. The war was successfully prosecuted by the 11th of November, and those powers, it would seem, lapsed.

Senator Smoot. Mr. Thompson was head of the board that I have reference to. Was it the War Loan Board?

Secretary HOUSTON. I do not remember.

Senator Smoot. They went out without any fuss and feathers, and I think they loaned about \$250,000,000.

Secretary HOUSTON. I have undertaken to state certain fundamental reasons for my belief that the corporation ought not to resume activities. If it functions, and it functions through the shifting process, it will raise the objection that I have to these other schemes; it will impose unusual burdens on the people of the United States at this time. It all comes to the same thing, whether you ask the Government to embark on a large additional borrowing program to attempt to stimulate exports to countries that can not put up securities, or whether you vote a bonus of a billion or two billions to soldiers.

Anything that is done now to add to the burdens of the Government will impair the ability of the Government to extinguish its floating indebtedness, to fund the Victory loan when it falls due, on reasonable terms, and will generally, if you resort to borrowing, tend to inflation of credits, and to hamper private enterprises. If you impose heavier taxes you will add so much more to the irritation of the taxpayers and to the cost of living. You can not do these things without imposing burdens upon the 105,000,000 of the American people.

Senator WATSON. Do you intend that remark to be of general application, or is it intended to apply to this bonus measure?

Secretary HOUSTON. They all come to the same thing so far as financing is concerned, in my judgment. I think the Congress is going to be pretty hard put to it for some time revising taxes and considering estimates. Taxes should be revised in the interest of simplicity and equity. The appropriations, no matter how much you try to cut them, will still be large. Some of the estimates you can not cut very much. The largest cuts might perhaps be made in those of the Army and Navy, if you decide to have a very different Army and Navy from those that apparently have been projected.

Senator WATSON. Do you include in the receipts of the Government any interest on foreign indebtedness to us?

Secretary HOUSTON. No interest on the foreign indebtedness is included.

Senator SUTHERLAND. Has any of it been paid?

Secretary HOUSTON. Substantially all of it which accrued up to April and May, 1919, as indicated in the annual report.

Senator WATSON. I saw those figures, and in that connection I wanted to ask you, Mr. Secretary, what is the likelihood of the payment of that interest?

Secretary HOUSTON. That raises a very interesting and difficult question.

Senator WATSON. Is that a question that you do not care to go into publicly? If so, I will not ask it.

Secretary HOUSTON. In part I have no objection.

Senator WATSON. I wish you would answer it as far as you like.

Secretary HOUSTON. As the members of the committee are aware, the debt now exists in the form of demand notes, which the Treasury holds, which are properly signed by duly accredited representatives of the various Governments. The laws under which those loans were extended to provide for the funding of the demand notes, and authority was conferred as a part of the funding process to defer interest payments for the time being. We have been negoti-

ating with the different Governments with a view to a satisfactory funding arrangement which would extend the payment of the principal for a considerable period and provide for the payment of interest after a certain period. The negotiations have not gone to my satisfaction to date, and have not been concluded, as I hoped they would be. I am not able to state to the committee now when they will be completed.

It is also doubtless known to the committee that that part of our debt, approximately \$10,000,000,000, is not covered by the ordinary sinking fund but is to be provided for out of foreign payments.

Senator McCUMBER. Mr. Secretary, on page 57 of your report you give an itemized statement showing the amount of interest heretofore paid by the foreign Governments on advances made to them by the United States Treasury. You show nearly \$11,000,000 by Belgium, a little over \$1,000,000 by Cuba; France, \$128,000,000; Great Britain, \$283,000,000; Italy, \$57,000,000; Russia, \$4,000,000.

Now, have those interest items been paid in cash, or are there certain credits that have been given them on account of matters that we were owing them for?

Secretary HOUSTON. All interest shown on page 57 of the annual report for the fiscal year 1920, as having been paid by foreign Governments, was paid in cash. To the extent that it was not paid from other resources of the Governments concerned, it was paid from the proceeds of loans made by the Treasury. The Treasury was still making substantial advances to foreign Governments in the spring of 1919. Several of the Governments, by reasons of the control which they exercised over the foreign exchange transactions of their peoples, or through other means, controlled dollars in addition to those which they received by way of advances from the Treasury. It is not possible, therefore, to identify the particular dollars paid by way of interest as having been received from the United States loans. Up to the spring of 1919, the amount of interest owed the Treasury by the foreign Governments to which we were making advances was one of the considerations taken into account in determining the amount of advances the Treasury was willing to make.

Senator WATSON. There was some money loaned abroad not provided for in the sinking fund and supposed to be taken care of in the interest they owed us, and in so far as they failed to pay us interest you are compelled to take that money out of the ordinary receipts of the Treasury?

Secretary HOUSTON. Yes, sir.

Senator McCUMBER. Mr. Secretary, from your report it appears that there are outstanding certificates maturing December 15, 1920, of \$700,000,000, and others maturing January 3 and January 15, 1921, of \$300,000,000, and then interest on Liberty bonds or certificates of \$140,000,000, making \$1,140,000,000.

On December 6, 1920, the cash in the Treasury was \$160,000,000, and you estimated that \$650,000,000 would be retrieved from the installment due December 15, making \$810,000,000. The other amounting to \$140,000,000 would leave a deficit of \$329,000,000, almost \$330,000,000, but that supposes every cent to be drawn out of the Treasury. With a workable balance in the Treasury of \$250,000,000 that would mean \$579,981,000 that would have to be raised in some other way.

Would you mind telling us—

Secretary HOUSTON. You are speaking now as of December 15?

Senator McCUMBER. December 15 and up to January 15.

Secretary HOUSTON. We have recently borrowed \$589,000,000.

Senator McCUMBER. Borrowed them for what length of time?

Secretary HOUSTON. Part for a year, and part for six months.

Senator McCUMBER. That would simply carry the deficit—

Secretary HOUSTON (interposing). In part, would carry on the obligation. Looking forward, as I have been trying to do to get a line upon the matter, outlining it in the report for a period of years on the basis of estimates of expenditures submitted, and on the basis of estimated receipts, including the public debt, we come down to the end of the fiscal year 1921 with a gross deficit of about \$2,000,000,000.

Senator McCUMBER. Will you just explain at this point what you mean by an income from the public debt? You spoke of an income, including that from the public debt. Will you kindly explain that so that the members of the committee may understand its meaning?

Senator Smoot. It would be some Liberty bonds and Victory notes, receipts from war savings securities, deposits to retire Federal Reserve Bank notes and national bank notes and some postal savings bonds.

Senator McCUMBER. You have purchased your own obligations, and you count the interest on that obligation as so much earned?

Secretary Houston. This is explained in the annual report, page 274. Now, at the end of the next fiscal year, 1922, on the same basis, there is an estimated gross deficit of, in round numbers, about \$1,448,000,000. I might say in passing, in reference to one item which you mentioned, that the estimate of the Treasury as to the probable receipts for the current quarter of \$650,000,000 has now been exceeded slightly. That is interesting in view of the representations that business could not find means to meet tax payments.

Senator McCUMBER. The President, in his annual message, gives us another item, which I assume from reading the message meant that it was an item that must have immediate care, and that was \$650,000,000 for railroad guaranty.

Secretary Houston. That is included in the estimates I have given you.

(Thereupon, at 11.55 o'clock a. m., the committee adjourned to meet at 10.30 o'clock a. m., on Monday, December 27, 1920.)

